First Trust Investment Solutions

Solutions for Concentrated Stock Positions

1 Reasons — 2 Needs — 3 Risks — 4 **Solutions**

Many investors find themselves with concentrated equity positions for a variety of reasons including:

Sale of a business in a stock-for-stock merger

Stock price appreciation during extended bull markets in U.S. equities

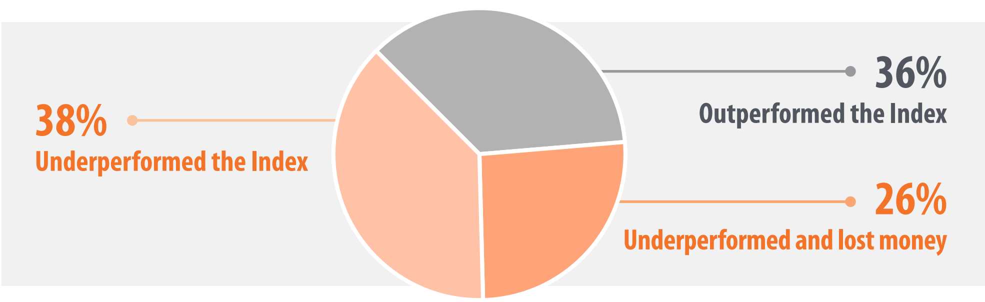
Significant appreciation of employer-issued stock and stock options

Inheritance or gifts

First Trust Investment Solutions custom option strategies seek to mitigate risk and may help achieve a client's goals in several ways:

- Preserve Capital
- Generate Income
- Diversify Exposure
- Offset Capital Gains Tax
- Generate Liquidity
- Increase Borrowing Capacity

Historical Return Breakdown of the S&P 500® Index Constituents[1]



64% of the S&P 500® Index constituents underperformed the Index.

Since 1990, approximately 35% (or about a third) of the stocks in the S&P 500 Index went down by at least 50% and remain below that level.

Custom Option Strategies

Our hedging and overlay strategies are executed in separately managed accounts. Each case is fully customized and tailored to the investor's goals and objectives. Every account is unique to that investor and managed according to the policies established.

Income Enhancement

Covered Call Income | Sell a call on an underlying stock. Receive a premium on the call option and participate in potential price gains up to the call strike price.

Hedging Strategies

Protective Puts | Purchases a put on an underlying stock. The premium paid for the put option will establish a floor price. Seeks to protect investors from stock declines below the floor price until the option's expiration date.

Stock Collars | Zero-Premium, Credit and Debit Collars are customized to seek to hedge a concentrated stock position while maintaining a predetermined amount of upside tailored to an investor's desired outcomes.

Diversification Strategies

Covered Call Direct Indexing | Sell a call on an underlying stock while setting time and price limits for the disposition of the stock. Seeks a systematic way for investors to diversify their holdings, participate in stock gains, and receive call option premiums. Cash premiums are paired with direct indexing for further tax benefits and diversification.

Exchange-Fund Replication | An equity collar is used to hedge a concentrated position. Options are utilized to create diversified market exposure. Diversify market exposure with lower cost than the typical exchange fund, while providing liquidity, flexibility, control, and potential for tax efficiency.

[1]Data from 1/31/1990 to 12/29/2023. Sources: Capital IQ and Bloomberg. Returns are measured from the date added to the index (or start of the study period) to the date removed (or end of the study period) for all companies included in the index during the study period, using month-end prices. For illustrative purposes only and not indicative of any actual investment. **Past performance is no guarantee of future results.** Diversification does not guarantee a profit or protect against loss.

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Why Choose First Trust Investment Solutions?

- We work with financial professionals and their clients to help manage their concentrated stock positions and potentially improve outcomes.
- Our suite of custom solutions offer the potential for yield enhancement, hedging, diversification and tax-mitigating strategies.
- We utilize best-in-class option analytics tools taking into account an option's delta, skew, and moneyness.
- Based on volatility surface, expected premiums and relative volatility, we provide an optimized strategy.
- We draft and adhere to a tailored Investment Policy Statement for each client based on their needs, goals, tax budget, risk tolerance and timeline.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

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FTIS has entered into a contractual agreement with First Trust Portfolios L.P. ("First Trust") to refer investment advisory services provided by FTIS. Since FTIS management fees are based upon a percentage of assets under management, the more assets under management, the higher fee income to FTIS. In addition, since First Trust is under common control with FTIS, First Trust will indirectly benefit from an increase in fees received by FTIS. Due to such compensation, First Trust has an incentive to recommend advisory services of FTIS, resulting in a material conflict of interest which should be considered when deciding to engage FTIS. First Trust will not be involved in the provision of services by FTIS. Please read FTIS' Form ADV Part 2 for a description of services and fees offered.

This summary is not intended to be tax or legal advice. This summary cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on the taxpayer. This summary is being used to support the promotion or marketing of the transactions herein. The taxpayer should consult an independent tax advisor.

Definitions

An **option** is a contractual obligation between a buyer and a seller. There are two types of options known as "calls" and "puts."

A **call option** gives the holder the right to buy the underlying asset at a predetermined price (the strike price), within a specified time period.

A **put option** gives the holder the right to sell the underlying asset at the strike price within a specified time period.

An **option skew** refers to the level of implied volatility for options with different strike prices.

Delta measures an option's price movement for every $1 change in the price of the underlying security or index.

Moneyness is how much an option contract's strike price is in-the-money (ITM) or out-of-the-money (OTM) expressed as a percentage of the price of the option contract's underlying asset.

Volatility surface refers to a three-dimensional plot of the implied volatilities of the various options listed on the same stock.

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